CHAPTER 14

PROGRAM INCOME AND REVOLVING LOAN ACCOUNTS

Introduction

This chapter discusses what Program Income (PI) is, how it may be used, and how to establish a Program Income Reuse Plan with its associated Revolving Loan Accounts (RLAs) funded with PI. Before work can be started on any PI-funded activity, **Department approval must be obtained**. Such approval will be conditioned upon eligibility of the activity, including the activity meeting a CDBG national objective, and compliance with the applicable federal overlay requirements, including NEPA environmental review. Additionally, PI must be expended in one of the two ways detailed in this chapter beginning on page 14-2.

What is Program Income?

Sources of Program Income

Program Income is defined as gross income received by a recipient (or subrecipient) that has been directly generated from the use of CDBG funds, and includes the following:

- Payments of principal and interest on loans made using CDBG funds. For any program income-generating activities that are only partially assisted with CDBG funds, such income should be prorated to reflect the actual percentage of CDBG participation. For example, if a loan was made with 50 percent local funds and 50 percent CDBG funds and a $100 payment is received, $50 would be CDBG program income.
- All interest earned on PI.
- Net proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds.
- Gross income from the use or rental of real property that has been acquired, constructed or improved with CDBG funds and that is owned in whole or part by the participating jurisdiction or subrecipient.

Note: Until such time as the above sources of revenue (net the costs of collecting the revenue) reach, or are expected to reach, $25,000 in a single FY (July 1-June 30), they are classified as **Program Revenue (PR)** rather than PI. If the $25,000 threshold is reached during the PY, all such income is classified as PI. If the $25,000 threshold is not reached during the FY, then the revenue may be considered “Miscellaneous Revenue”, as below.

What is Not Considered Program Income?

- If total PR from all CDBG activities is less than $25,000 for an entire program year (“PY”), this is considered "Miscellaneous Revenue" (“MR”). MR may be spent on any local activity, not just CDBG-eligible activities. However, the jurisdiction must still complete and submit Quarterly and Annual Program Income Reports, as described in Chapter 10 of this manual, if the jurisdiction could potentially receive any PI
- Costs that are incidental to the collection of PR may be deducted from the gross PR to determine net PR.
- PI does not include interest earned on open grant advances from the Department. Any interest earned on grant advances must be forwarded to the Department (see Chapters 9 and 13).
- Revenue from 1992 CDBG grants, or earlier, may not be PI if there has been a subsequent gap between open grants. Jurisdictions must provide documentation of such funding gaps and receive written approval from the Department before ceasing to report the revenue from such pre-1993 grants. PI generated from 1993 or later grants, regardless of gaps between open grants, continue to be defined as PI.
- Unspent CDBG loan/grant funds (for example, if a grantee made a $40,000 loan to rehabilitate a dwelling but the final cost to rehabilitate the dwelling was $35,000, the $5,000 difference would reduce the $40,000 loan to $35,000 and the $5,000 would be returned to the grantee loan pool as unspent funds, not program income.)

WHAT SHOULD BE DONE WITH PROGRAM INCOME?

PI retained by the jurisdiction must be substantially expended by the end of the PY. A jurisdiction **cannot** accumulate excessive amounts of PI. Program Income must either be returned to the Department or be expended in any of the following two ways:

1. Expended for the same activity that is funded under an open CDBG grant prior to drawing down additional federal funds;

If you have an open CDBG grant, you may spend PI on the activity or activities specified in the open grant, but the PI must be spent first, before the open grant funds.

What is the process for spending PI in this Way?

In order to spend PI in this way your PI Reuse Plan should specify this option in addition to spending PI through RLAs.

The amount of PI attached to the open grant activity must have been committed by the jurisdiction's governing body after holding a properly noticed public hearing. This may occur during approval of an application for funding or at a later date. If the governing body resolution and proof of publication of the public hearing were not included with the funding application, then these must be sent to the jurisdiction's CDBG or EDBG Representative, as applicable, for approval prior to expenditure.

Once the special conditions for the grant activity have been cleared by the Department and the jurisdiction has obtained CDBG approval of any post-application PI commitment, it may proceed to spend PI on the grant activity.

Reporting

In addition to the required Quarterly and Annual PI Reports, the CDBG Funds Request form required for the open grant includes the grantee's reporting of the actual expenditures of PI on activities associated with that open grant. The accomplishments (units, jobs, beneficiaries) must be reported on the annual Grantee Performance Report (GPR) for the open grant.

2. Expended through a Revolving Loan Account ("RLA") as described in a Program Income Reuse Plan.

A Revolving Loan Account (RLA) is a separate fund with a set of accounts, which are independent of other program accounts. An RLA is established for carrying out only one specific activity (e.g., loans for housing rehabilitation, homeownership assistance, or business loans), which, in turn generates repayments to the fund for use in continuing to carry out that same activity. A jurisdiction may establish several RLAs, but each must be for a single, CDBG-eligible, lending-type activity that meets a CDBG national objective. The name of the RLA should reflect this single activity name in order to avoid confusion on CDBG reports. Each RLA must also be "substantially revolving" (see next paragraph).

The most common use of PI is placement in an RLA. Each RLA must be "substantially revolving," meaning that at least 51 percent of the RLA expenditures must be for loans. Amounts up to the remaining 49 percent may be spent on non-revolving activities, such as general administration, activity delivery, and grants for the same activity as the RLA.

If the Revolving Loan Account (RLA) funds are expended on the same type of activity as an open grant (e.g., both the RLA and the open grant are funding business loans in the entire jurisdiction), then the RLA funds must be expended before drawing down Treasury funds under the open grant agreement.

This situation may be avoided by defining the activity of an RLA to be different than activities funded by open grants, such as for a target area outside of that of any open grant, or for a different clientele than under open grants.

What is the process for spending PI in this Way?

Before any work can be started you must have a locally adopted and CDBG-approved P I Reuse Plan in place and you must obtain written Department approval to proceed, indicating compliance with all applicable federal overlay requirements, e.g. NEPA environmental review.

Reporting

The required Quarterly and Annual PI Reports will include the actual expenditures of PI through RLAs. The accomplishments (units, jobs, beneficiaries) must be reported on the annual Grantee Performance Report (GPR) for the Revolving Loan Account.

3. Amended (added) into an open CDBG grant for expenditure on an activity not already included in that grant.

Beginning on January 1, 2004 this option is no longer available. To use this method until then, please refer to Chapter 14 of the 2002 Grant Management Manual and your CDBG or EDBG Representative for instructions. This method should be deleted from your PI Reuse Plan at your earliest opportunity.

Administrative Expenses

Up to 18 percent of the total PI expended during a PY may be used for CDBG General Administration (GA) expenses.

PI Reuse Plans

What is a PI Reuse Plan?

A PI Reuse Plan governs the jurisdiction's ongoing use of PI. The PI Reuse Plan identifies all proposed uses of the PI and commits the jurisdiction to comply with all CDBG program requirements. The PI Reuse Plan substitutes for an ongoing contract with the Department. The Department closes out its grants to local governments upon satisfactory completion of the terms and conditions of the grant agreement. However, Federal statute requires the Department to track PI beyond the closeout of the grant that generated the PI. To that end, the PI Reuse Plan satisfies the Federal requirement that local governments obtain advance State approval of a local plan governing PI.

The proposed reuses of the PI are disclosed in the PI Reuse Plan and a public hearing is held to allow for meaningful local citizen comments about the plan, prior to its adoption by the local governing body. Annually, a properly publicized public hearing must also be held to convey the accomplishments associated with each active RLA. The annual Grantee Performance Report then is submitted to the Department to report these accomplishments.

For each identified RLA the PI Reuse Plan must specify all revolving and non-revolving uses of funds, e.g., general administration, any grants, or any activity delivery costs. Only such costs that are associated with the specific activity of the RLA may be charged to the RLA.

When to Submit a Reuse Plan

If you choose to retain PI locally (instead of sending it to the State) and expend these funds on an activity other than an activity funded under an open grant, then you must prepare a PI Reuse Plan for local and Department approval. A sample Reuse Plan is included at the end of this Chapter. PI Reuse Plans, or in some cases recent two-signature approval letters, are submitted to the Department in order to clear special conditions associated with each new CDBG grant agreements, but new or revised PI Reuse Plans may be submitted at any time for review and approval.

The State Review Process for PI Reuse Plans

Once you have drafted the PI Reuse Plan, we suggest that you submit it to the Department for preliminary review. After the local governing body adopts the PI Reuse Plan, submit a final copy of the adopted plan, along with documentation showing that a properly noticed citizen participation public hearing was held, and a certified resolution, to the Department for review and approval.

The State CDBG program reviews these documents to ensure that PI will be used for CDBG-eligible activities and that CDBG eligibility, national objectives, and federal overlay requirements (environmental, labor standards, procurement, equal opportunity, Section 3, etc.) are met.

When you need to amend the PI Reuse Plan, follow the same process described above and submit the same documents to the Department for review and approval.

The Components of a PI Reuse Plan

Please refer to the PI Reuse Plan Checklist and Sample PI Reuse Plan at the end of this chapter for the PI Reuse Plan components.

PI Reports

At the end of each of the first three quarters of the July 1 to June 30

Program Year, and at the end of each Program Year, you will report on your CDBG Program Revenue (PR), PI actual expenditures, and PI account balances, regardless of whether or not your total PR exceeds the $25,000 annual threshold (also see Page 14-10, and Chapter 10). If your jurisdiction has either: 1) made any loans that, when repaid, would be PR, or; 2) is receiving income that has been directly generated from the use of State CDBG funds (see page 14-1, "Sources of Program Income"), then it must submit Quarterly and Annual PI Reports.

QUESTIONS AND ANSWERS

Do Federal Overlays Apply to PI Projects?

Yes, ***all*** federal regulatory overlays, including environmental, citizen participation, and labor standards, apply to each activity funded with PI.

For example, if PI is being used to fund a construction activity, then the jurisdiction needs to comply with the labor standards compliance procedures specified in Chapter 5. The same is true for environmental review procedures and the jurisdiction should submit environmental review documentation to the State CDBG program for review and clearance prior to incurring costs or expending funds for a PI-funded activity. Environmental review procedures are described in Chapter 3.

Do the New Lead-Based Paint (LBP) Requirements Apply to PI Projects?

The new lead-based paint regulations apply to program income activities when a grantee has received an award letter dated 9/15/00 (or later) for an activity requiring the implementation of the new regulations (e.g. housing rehabilitation and housing acquisition).

Note: Implementation of the new LBP regulations was delayed until 1/10/02. A grantee receiving an award letter dated 9/15/00 (or later) was not required to implement the new regulations until 1/10/02.

What Activities Can Be Funded with PI?

Any activity ***eligible*** under the CDBG program that meets a ***national objective*** can be funded with PI.

Can PI be Accumulated?

No. As a rule, PI must be substantially expended by the end of the program year. The Annual Program Income Report will be reviewed to determine if the jurisdiction is carrying over excessive amounts of PI from one fiscal year to the next. The Department will also use Quarterly PI Reports to track PI balances. The Department may prevent jurisdictions from applying for additional (new) funding until they have reduced PI balances to acceptable levels.

While there is no specific dollar amount that is deemed excessive to be retained, the Department's guideline is that PI on hand at the end of the Program Year should not, in general, exceed the cost of funding one typical project for each RLA activity, including activity delivery, plus sufficient funds to cover associated administrative expenses.

If your jurisdiction allows a subrecipient to retain program income on its own behalf please discuss this situation with your CDBG Program Representative.

What Does "Substantially Revolving" Mean?

Substantially revolving is defined as the use of at least 51 percent of the funds in an RLA for loans, which will be repaid to the fund. A limited portion of a housing rehabilitation RLA, for instance, may be used for housing rehabilitation-related grants and for housing rehabilitation activity delivery costs. Activity delivery expenses charged to an RLA shall not exceed the percentage allowed for activity delivery when implemented under a State CDBG Program grant (e.g., 19 percent for housing rehabilitation programs, 10 percent for economic development loan programs, and 8 percent for Homebuyer Assistance programs).

What are the Requirements of Funding and Disbursing an RLA?

An RLA must be substantially disbursed before additional Treasury funds are requested for an open grant activity, which is the ***same*** activity as the RLA.

Note that if the activity of an RLA *differs* from that of an open CDBG-funded grant, the two activities would not necessarily be defined as the same activity, and the above restriction does not apply. Funds may be drawn down under the open CDBG grant without first expending the PI in the RLAs.

Examples:

- A housing rehabilitation RLA established for a narrowly defined purpose such as emergency repairs or for target area ABC would differ from an open grant activity for target area XYZ.
- Similarly, an RLA set-up to make micro-loans to micro-enterprises for the purpose of creating self-employment opportunities would differ from an open Enterprise Fund grant making larger loans to larger businesses.

A jurisdiction may establish as many RLAs as it chooses in its Reuse Plan, and PI generated by one activity (e.g., economic development) may be placed into an RLA created for another activity (e.g., housing rehabilitation).

What Administrative Costs are Allowed?

Cap on general administrative costs charged to Program Income:

The total PI expended for general administrative costs cannot exceed 18 percent of the jurisdiction's total **PI expended** for all activities in a fiscal year, including PI expended through open grants and through RLAs.

General Administrative Costs for an RLA:

You may charge general administrative costs against an RLA on a per-loan, monthly, semi-annual, quarterly, or fiscal year basis. However, these general administrative costs must be related to the specific activity of the RLA.

General Administrative Costs for a PI-Funded Activity That Has Been properly Associated With an Open Grant:

The general administrative costs must be included in the total amount associated with the open grant.

Planning Activities:

The costs of planning activities and studies, including match for State P/TA grants, may be paid for with PI only within the 18 percent general administrative cost limit. To be considered an RLA expenditure, the planning activity or study must be related to the specific RLA activity. Otherwise, the PI-funded planning activity or study (including P/TA match) must be associated with an open CDBG Planning and Technical Assistance grant.

Activity Delivery Costs for an RLA:

Activity delivery costs must be reasonable, and the total non-revolving uses (i.e., general administrative costs, grants, and activity delivery costs) cannot exceed 49 percent of PI funds expended during the fiscal year. These costs must have been included in the total amount associated with the open grant.

Activity Delivery Costs for PI Being Expended on an Open Grant Activity

Activity delivery costs for PI being spent on an open grant activity are allowed at the same percentage rate as under the grant. Ask your ED or General Allocation Representative for guidance if necessary.

Costs of Collection of Program Revenue:

The actual costs of collecting the loan payments can be netted out of program revenue for the purpose of determining the amount of program income received. Costs of managing the loans, such as: income recertification; project/unit maintenance inspections; tracking/ensuring hazard insurance coverage; answering borrower questions; etc., are not considered costs of collection, so cannot be netted out of program revenue to determine the amount of PI. However, such loan portfolio management costs may be expended out of program income and charged to PI general administration, as above.

What are the Program Income Accounting Requirements?

You are responsible for maintaining accounting records for PI, which adequately identify the source(s) and use(s) of PI. These records must contain information pertaining to all grant or sub-grant awards of PI and all authorizations, obligations, un-obligated balances, liabilities, outlays of expenditures, and income.

You must demonstrate, through State program and fiscal monitoring, and your annual single audit, that you have effective control and accountability for PI. You must also ensure that PI is being used solely for authorized purposes and that you exercise sufficient control to assure compliance with applicable CDBG program requirements and performance goals, and that activities are being carried out on a timely basis and within budget. The use of PI must be reported in the required audit (see Chapter 11).

The following narrative describes the basic PI accounting requirements needed to meet Federal and State standards:

- ❖ When PI is initially received, it must be accounted for by the

CDBG grant that it was earned from. This will allow you to track the amount of PI earned by each grant. Once the PI is disbursed into an RLA, it should no longer be tracked by source grant, just by RLA.

❖ Although not required, it is strongly suggested that a separate bank account be established for PI. This will prevent the confusion and trouble of determining how much interest income should be classified as PI when funds are commingled in a single bank account.

❖ Once the proper accounts have been established, it is then essential that the accounting procedures and internal controls be adequate to assure that all PI is properly recognized. This, in part, requires you to establish a system, which will anticipate repayments of loans and take appropriate actions when loan repayments are delinquent. At a minimum, your accounting procedures and internal controls should:

- assure collection of all program income due to the recipient (e.g., loan payments);
- assure that all funds received are accurately classified and coded to the accounts to be credited;
- safeguard and prevent the misappropriation of funds;
- assure that funds are immediately deposited into the proper bank account, and;
- assure that PI funds are disbursed before requesting additional Treasury funds when using PI for the same activity as an open grant.

What Are the Program Income Reporting Requirements?

Summarize all of your jurisdiction's PR, PI expenditures, and PI balances on one Quarterly or Annual Program Income Report per reporting period. See Chapter 10 for details.

All accomplishments achieved through the expenditure of PI must be reported on an Annual Grantee Performance Report (GPR). Accomplishments resulting from the expenditure of PI through an RLA will be reported on the GPR for that RLA. Accomplishments resulting from the expenditure of PI through an open grant will be reported on the GPRs for that open grant. All GPRs are due by July 30th of each year.

Use of PI for open grants, whether spent on the same activity as the grant or for a different activity amended into the grant, must also be reported on the relevant CDBG Funds Request form for the grant.

See Chapter 10, "Reporting" for the forms, instructions, and deadlines.

CONCLUSIONS

Problems with Using Program Income

Inadequate financial records of receipt and expenditure of program and miscellaneous income.

Inadequate financial reporting of program outcomes and revolving loan accounts in the annual Grantee Performance Report.

Inadequate Grantee monitoring and oversight of subrecipients/contractors administering PI reuse accounts for jurisdictions.

Retaining excessive amounts of program income on hand.

Spending in excess of the allowable percentages for general administration and/or activity delivery.

Spending more funds from an RLA on non-revolving activities than on revolving activities.

Failure to obtain Department of approval of overlay compliance before proceeding with an activity or project, especially NEPA environmental review. Failure to obtain the Department's clearance can lead to project ineligibility and performance consequences on future CDBG applications.

Failure to account for time and expenses associated with costs of collection of PI, thereby disallowing these costs from being netted out of program revenue to determine the amount of PI received.

What is the Department's Role in Program Income?	Program and fiscal staff will review the Program Income Reuse Plan, the Quarterly and Annual PI Reports, and the CDBG Funds Requests. Program staff may assist jurisdictions in developing RLA program guidelines and procedures that ensure compliance with CDBG program requirements. Program staff will monitor your PI-funded projects in the same way that they monitor your open grants. Program staff will respond to jurisdictions' requests to clear environmental and other overlay requirements prior to the use of PI on every activity or project, as applicable. All PI-funded activities trigger compliance with federal requirements, and Department approval must be obtained before proceeding with a PI funded activity. Fiscal staff may assist jurisdictions with developing fiscal record keeping systems that meet CDBG requirements.
Reference Materials	CFR 570.489(e) and (f): Defines program income and criteria for establishing revolving loan accounts at the local level. CFR 570.500 and 570.504: Specify conditions under which a grantee can retain program income and the requirements for disbursing program income prior to drawing down funds under an open grant.
Supporting Materials	• Annual Program Income Report Review Checklist (NEW!) • Program Income (PI) Reuse Plan Checklist (Revised 2003) • Sample Program Income Reuse Plan (Revised 2003) • Also see report forms in Chapter 10

ANNUAL PROGRAM INCOME REPORT
REVIEW CHECKLIST

The purpose of this checklist is to ensure that Annual Program Income Reports received by the State CDBG Program from jurisdictions are properly completed. Each Annual PI Report must specifically meet the following requirements:

☑?	Section	Review Item
	Form	Has the most recent version of the form been completed? (Section III.C should be "Total Bank Acct. Interest Earned")
	Header	Is the name of the jurisdiction included in the header?
	Header	Has the proper report period been inserted?
	Header	Has the Date of Reuse Plan Approval Letter been provided?
	I.A	Are all CDBG grants that could potentially yield Program Revenue listed?
	I.C and II.C	Check Costs of Collection of the Revenue. The jurisdiction must maintain documentation (timesheets and invoices) for these costs. They may not be based on a percentage of the revenue or any other arbitrary factor.
	II.	If no revenue is listed is it because the jurisdiction has not made loans from its RLAs.
	II.A	Are all of the jurisdiction's RLAs listed, as defined in their PI Reuse Plan?
	II.A	Is each RLA clearly named for one single CDBG-eligible activity? (Also applies to Sections V, VIII, and IX)
	III.C	Bank interest must not be double-counted. If it is included in Sections I or II, do not include here.
	III.D	Has the total been properly calculated?
	IV.A	Are only RLAs and CDBG grants that were in place during the PY listed?
	IV.B	Does the total equal the total of Section III.D?
	V.A	Are all of the jurisdiction's RLA's that are in their PI Reuse Plan listed?
	V.B	Is the amount in V.B at least 51% of V.D for each separate RLA?
	V.	Has each RLA with a beginning or ending balance in Section VIII had expenditures in the PY?
	VI.	Does this section include all PI associated with open grants of which you are aware?
	VI.F.	Is the jurisdiction expending amounts associated with open grants within a reasonable period of time? Check previous FY's report to compare.
	VII.A	Does the total include the amounts expended from both Sections V and VI?
	VIII.A	Are all of the jurisdiction's RLA's listed, as defined in their PI Reuse Plan?
	VIII.B	Does the beginning balance equal the ending balance from the previous Quart. PI Report?
	VIII.C	For each RLA, is the amount deposited the same as in Section IV?
	VIII.D	For each RLA, is the amount expended the same as in Section V.C?
	VIII.E	Do transfers between RLAs net out to zero, and/or have transfers to grants been included in Section VI, and are they explained in Section X, Comments?
	VIII.F	Do any of the RLAs have ending balances that are too high? (Greater than one unit of delivery including AD and GA).
	IX.	Are all of the jurisdiction's RLA's listed, as defined in their PI Reuse Plan?
	X.	Has the jurisdiction provided adequate explanations of transfers to grants and any RLA balances greater than one unit of delivery plus AD and GA?
	XI.	Has the report been signed by an employee of the jurisdiction who is the superior of the preparer?

PROGRAM INCOME (PI) REUSE PLAN CHECKLIST

The purpose of this checklist is to ensure that jurisdictions receiving income from State CDBG-assisted activities adequately govern the reuse of those funds. The Reuse Plan should specifically address the following items:

☑?	Does the PI Reuse Plan include the following items?
	1. An identifying version or revision date.
	2. A definition of "program income" that does not conflict with the description in the GMM
	3. Specifies that no more than 18 percent of funds **expended** for all combined PI activities during the PY shall be expended for general administration activities (this includes planning studies).
	4. Specifies that: a) PI must be spent before grant funds unless the PI is in an RLA that is for an activity that is distinguished from the grant's activities, and; b) does not include option to amend an additional, non-grant-funded activity into an open grant.
	5. Specifies that the Reuse Plan shall be adopted by the local governing body after the local citizens have had an opportunity to comment on the Plan per Federal Regulations at 24 CFR 570.486, Local Government Requirements.
	6. Specifies how program income ("that has not been committed to open grant activities" – recommended language) will be distributed among revolving loan accounts (RLAs), e.g., __% to the housing rehabilitation RLA and __% to the economic development RLA; or housing rehab loan repayments to the HR-RLA, and economic development loan repayments to the ED-RLA.
	7. Specifies that the jurisdiction is subject to State CDBG PI-related reporting requirements, as follows: Quarterly and Annual Program Income Reports will be submitted even if program revenue received in a single program year ("PY" - July 1 thru June 30) is less than $25,000, and the jurisdiction does not consider this income to be PI, and; a Grantee Performance Report will be submitted for each RLA from which any expenditures were made in the PY.
	8. Specifies that for any activity funded with program income, whether through and RLA or for an open grant activity, the jurisdiction must: a. Comply with all applicable Federal and State "overlay" requirements, including: Citizen Participation; Environmental review under NEPA; Labor Standards; Equal Opportunity and Section 3; Procurement; Acquisition and Relocation; Accounting and Recordkeeping; Lead-based Paint, and; b. receive written Department approval before proceeding with each PI-funded activity.
	9. Specifies that PI in shall be substantially expended by the end of the PY. ("Substantially expended" means that the RLA shall not have a balance that exceeds the cost to fund a single project and its related administrative and activity delivery costs.)
	10. Specifies in the RLA name and description the single, CDBG-eligible, lending-type activity that will be funded under each RLA, including anything that will be funded as non-revolving (e.g., percent of funds for general administration and activity delivery; and any grants for the RLA's activity).
	11. Specifies that RLA funds must substantially revolve. ("Substantially revolve" means, that at least 51 percent of funds expended under the RLA during the PY shall be expended in the form of loans (forgivable loans do not qualify).
	12. Specifies that no more than 49 percent of funds expended under the RLA during the PY shall be expended for non-revolving activities. (Non-revolving activities are: General administration costs, activity delivery costs, and grants for the RLA's activity.)
	13. ~~Does not allow additional activities that are not CDBG grant-funded to be "amended into" open~~ grants after 12/31/03.

SAMPLE

PROGRAM INCOME REUSE PLAN

City/County of___________________________ Date of this Plan_________________

A Reuse Plan Governing Program Income from CDBG-Assisted Activities

The purpose of plan is to establish guidelines on the policies and procedures for the administration and utilization of program income received as a result of activities funded under the State Community Development Block Grant Program.

Need for Plan Governing Reuse of Program Income. This Reuse Plan is intended to satisfy the requirements specified in Federal statute and regulation at Section 104 (j) of the Housing and Community Development Act ("the Act"), as amended in 1992 and 24 CFR 570.489 (e) (3). These statutory and regulatory sections permit a unit of local government to retain program income for CDBG-eligible community development activities. Under federal guidelines adopted by the State of California's CDBG program, local governments are permitted to retain program income so long as the local government has received advance approval from the state of a local plan that will govern the expenditure of the program income. This plan has been developed to meet that requirement.

Program Income Defined. Program Income is defined in federal regulation at 24 CFR 570.489 (e) which specify that program income is the gross income received by the jurisdiction that has been directly generated from the use of CDBG funds. (For those program income-generating activities that are only partially funded with CDBG funds, such income is prorated to reflect the actual percentage of CDBG participation). Examples of program income include: payments of principal and interest on housing rehabilitation or business loans made using CDBG funds; interest earned on program income pending its disposition, and interest earned on funds that have been placed in a revolving loan account; net proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds; income (net of costs that are incidental to the generation of the income) from the use or rental of real property that has been acquired, constructed or improved with CDBG funds and that is owned (in whole or in part) by the participating jurisdiction or subrecipient.

If the total amount of income generated from the use of CDBG funds (and retained by the City/County) during a single program year (July 1 through June 30) is less than $25,000, then these funds shall not be deemed to be program income and shall not be subject to these polices and procedures. However, Quarterly and Annual Program Income Reports must be submitted regardless of whether the $25,000 threshold is reached or not. Costs incurred that are incidental to the generation of Program Income may be deducted from the gross program revenue to determine the net Program Income amount.

General Administration (GA) Cost Limitation. Up to eighteen percent (18%) of the total program income expended on all activities during a single program year may be used for CDBG general administration expenses.

Reuses of Program Income. Program income must be: a) disbursed for an activity funded under an open grant prior to drawing down additional Federal funds; b) forwarded to the State of California, Department of Housing and Community Development (Department); or c) distributed according to this Program Income Reuse Plan that has been approved by the Department. The City's/County's program income will be used to fund *eligible* CDBG activities that meet a *national objective*. Eligible activities and national objective requirements are specified in federal statute at Section 105(a) and in federal regulations at 24 CFR 570.482 and 24 CFR 570.483. ***The Reuse Plan shall specify all proposed uses of these funds and the plan shall be adopted by the local governing body after compliance with the locality's citizen participation process as specified in Federal Regulations at 24 CFR 570.486, Local Government Requirements.***

The City/County reserves the option of utilizing program income to fund/augment a CDBG funded activity included in a grant agreement. The City/County must first follow the citizen participation process, hold a public hearing, obtain a governing body resolution, and obtain approval from the State CDBG Program.

Planning Activities. The City/County reserves the option of utilizing program income, within the 18 percent general administration annual cap, to fund planning for CDBG-eligible activities. Such planning activities may include: cash match for a State CDBG Planning and Technical Assistance Grant; environmental reviews or other studies necessary for CDBG-eligible projects or programs; or application preparation for CDBG or other grants/loans to supplement funding for CDBG-eligible activities. The costs of such planning activities may be charged to an RLA if the planning is for the same activity as the RLA. Otherwise, PI may only be expended on planning activities in conjunction with an open CDBG Planning and Technical Assistance grant.

Distribution for Reuse of Program Income. The City's/County's program income that has not been committed to open grant activities will be distributed, as follows:

Two revolving loan accounts (RLAs) are established to utilize the program income.

The allocations to the RLAs are as follows:
a) Fifty percent (50 percent) of all program income will be deposited into the Housing Rehabilitation Revolving Loan Account.
b) Fifty percent (50 percent) of all program income will be deposited into the Business Expansion and Retention Revolving Loan Account.

(**Note to persons drafting or revising their Reuse Plan:** Alternatively, the jurisdiction could choose different percentages, or to replace the above percentages with a scheme to place all housing rehabilitation loan repayments into the Housing Rehabilitation RLA, and all business loan repayments into the business Expansion and Retention RLA.)

Funds shall not be transferred between RLAs or to an open grant activity_without conducting a properly noticed CDBG Citizen Participation public hearing. If it becomes necessary to transfer funds between RLAs we will consider revising the above distribution formula.

Reporting and Federal Overlay Compliance.

The City/County shall comply with all State CDBG reporting requirements, including submittal of an annual Grantee Performance Report for each RLA and submittal of the required Quarterly and Annual Program Income Reports, which shows combined receipts and actual expenditures from all RLAs on one report (due by August 15). The City/County shall ensure that the use of program income under this Reuse Plan complies with all CDBG program requirements, including citizen participation, environmental review, equal opportunity, Section 3 employment, lead-based paint, labor standards, procurement and property management, and maintenance of adequate accounting and recordkeeping systems. To ensure ongoing compliance with CDBG requirements, the City/County shall utilize the latest available State CDBG Program Grant Management Manual for guidance on compliance procedures and polices. The City/County shall obtain the Department's written approval before proceeding with any PI-funded activity.

Maximum Funds in Revolving Loan Accounts.

Program Income received by the RLAs during the program year (July 1 through June 30) shall be substantially expended by the end of the program year (June 30). At any given time, the funding balance for either of the RLAs should not exceed the typical cost of a single RLA project, plus reasonable administration costs (up to 18 percent of total expended costs). ***For example, if your average Housing Rehabilitation PI loan cost (including AD and GA) is $58,000, the balance of your Housing Rehabilitation RLA should not typically exceed this amount. If your average Business Loan cost (including AD and GA) is $175,000, the balance of your Business Expansion and Retention RLA should not typically exceed this amount.***

Revising this plan. The City Council/Board of Supervisors has the authority to amend this document with a properly noticed Council/Board meeting and approval by the State Department of Housing and Community Development (HCD).

Revolving Loan Accounts. The purposes and allowed uses of funds under these RLAs are, as follows:

Housing Rehabilitation Revolving Loan Account.

This fund will be principally used for the purpose of making loans to rehabilitate residential units occupied by households which have an annual income which is 80 percent (80 percent) or less of the county's median income. At least 51 percent of the funds expended for the activity funded under this RLA during the program year shall be used on revolving activities (i.e., loans).

No more than ___ percent of the program income funds actually expended during the program year under this RLA shall be expended for housing rehabilitation grants. No more than 19 percent of the funds expended from this RLA shall be used for activity delivery costs. No more than eighteen percent of the total amount of PI expended annually may be expended for general administrative costs related to this RLA activity. In any event, the total expended for non-revolving activities (grants, activity delivery costs, and general administration) shall not exceed 49 percent of the total funds actually expended during the program year (July 1 thru June 30).

The review and funding of requests for CDBG loan or grant assistance under this RLA shall be conducted under the Housing Rehabilitation Program Guidelines that have been adopted by the City/County (Attachment A). All assistance provided to activities under this RLA shall be made for activities that are located within the City's/County's jurisdiction.

If the activities funded under the RLA are for the same activities as those funded under an open State CDBG grant agreement, then the funds available in this RLA shall be expended prior to drawing down funds from the State CDBG program.

Business Expansion and Retention RLA.

This fund will be used to provide "gap" financing for businesses that can document the need for CDBG assistance and that will create or retain qualifying permanent jobs that will be principally filled by members of households which have an annual income that is 80 percent or less than the county's median household income, adjusted for size. At least 51 percent of the funds actually expended for the activity funded under this RLA during the program year shall be used on revolving activities (i.e., loans). No more than _____ percent of the program income funds expended during the program year under this RLA shall be for grants for public infrastructure improvements that are needed to accommodate a specific business expansion or retention project. No more than 10 percent of the total funds expended for business assistance activities shall be used for activity delivery costs. No more than eighteen percent of the total amount of PI actually_expended annually may be expended for general administrative costs related to this RLA activity. In any event, the total expended for non-revolving activities (grants, activity delivery costs, and general administration) shall not exceed 49 percent of the total funds expended during the program year (July 1 thru June 30).

If the activities funded under the RLA are for the same activities as those funded under an open State CDBG grant agreement, then the funds available in this RLA shall be actually expended prior to drawing down funds from the State CDBG program.

The review and funding of requests for CDBG loan or grant assistance under this RLA shall be conducted under the federal underwriting guidelines specified at 24 CFR 570.482 (e) that have been incorporated into the City's/County's adopted Business Revolving Loan Fund Program Guidelines (Attachment B) and include the project review procedures. These guidelines will ensure that the amount and terms of the CDBG assistance are appropriate given the documented needs of the business and given the amount of public benefit (job creation/retention) that will result from the CDBG-assisted project. In addition, any activity requesting funding under this RLA shall be deemed to be eligible under Section 570.482 and Section 105 (a) of the Act and shall be determined to provide sufficient public benefit as specified under Section 570.482 (f). Any CDBG assistance for infrastructure shall meet the requirements of Section 570.483 (b) (4) (F) which requires ongoing job tracking for all businesses that initially benefit from an infrastructure project as well as any subsequent business(s) benefiting from these improvements. All assistance provided to activities under this RLA shall be made for activities that are located within the City's/County's jurisdiction.